CENTRA CREDIT UNION

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August 31, 2015

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Proposed Rulemaking for Part 723 - Member Business Lending

Dear Mr. Poliquin:

Centra Credit Union (Centra) sincerely welcomes and appreciates the opportunity to submit comments on the National Credit Union Administration's (NCUA) Proposed Rulemaking for Part 723 - Member Business Lending (MBL). As a frame of reference, Centra currently possesses total assets = $1.28 billion, total membership approximating 132,000, and a total MBL portfolio = $94.2 million. We serve consumer and commercial members throughout parts of Indiana, New York and North Carolina.

We appreciate the NCUA Board thoroughly reviewing the MBL rule and modernizing the rule in a way that provides greater flexibility to credit unions such as Centra making these loans, streamlining the process by eliminating the requirement for waiver requests, and providing some much needed regulatory relief against the arbitrary cap that is in place. The proposal would rectify existing regulations that are antiquated, and we have confidence in the NCUA properly supervising its member organizations so that well-performing organizations, such as Centra, are in a better position to provide access to credit to small businesses throughout our field of membership.

We support NCUA's move to a principles-based rule and away from a prescriptive, inflexible rule. It is important that credit unions have the flexibility to manage their commercial lending programs with the ability to adjust as necessary to meet the needs of the membership in a prudent and responsible fashion. We support eliminating those restrictive requirements from the rule that are not specifically required by the Federal Credit Union Act (FCUA). We would further encourage NCUA to utilize this approach with other regulations going forward.

We agree with the addition of the definition of 'commercial loans' as well as the distinction between what is a 'commercial loan' and what is a 'member business loan' and subject to being included in the MBL cap calculation. This clarification that better aligns the MBL regulations with the FCUA is an important change that positions credit unions such as Centra to enhance and strengthen commercial loan programs that are structured to meet the needs of our current and prospective membership, while recognizing the importance of sound policies and procedures to manage the commercial loan portfolio.

We support eliminating the loan-to-value ratio limitation, secured loans-to-one borrower limitations, and personal guarantees, and allowing a credit union, like Centra, to address these in our existing and comprehensive commercial loan policy. (Centra already possesses a robust MBL policy, which will be revised as needed to address the specific changes in the proposed regulations.) Eliminating these from the rule does not mean that we will not establish our own criteria for these various ratios/limits, or no longer require personal guarantees. We will continue to apply sound lending

criteria, building upon the quality MBL program that we currently have in place, and enhance existing safeguards as we continue to pursue creditworthy, strategic loan growth. It is important that the NCUA is allowing the credit union board and management to determine what the appropriate limits and borrower requirements are, and when to waive certain requirements to facilitate making high quality commercial loans. Centra is but one example of credit unions that have identified good, quality member business loans but were not always able to fully pursue said loans due to delays resulting from the heretofore required waiver process. Such an inconvenience to high-quality prospective borrowers ultimately resulted in those opportunities being lost to non-credit union competitors who maintain greater flexibility in the lending process.

We concur with the proposed treatment of 1- to 4-family (owner occupied or non-owner occupied) residential loans as not being commercial loans. We also agree with not counting 1- to 4-family owner occupied loans toward the MBL cap. We understand the specific requirement of the FCUA that 1- to 4-family non-owner occupied residential loans be treated as MBLs for purposes of the MBL cap calculation. We continue to believe that additional statutory changes are needed, and would encourage NCUA to support legislation that would address some of the limiting MBL restrictions in the FCUA.

We support the proposal to exclude non-member loans purchased in whole or a participation interest of a non-member loan purchased from the MBL calculation. We will continue to conduct due diligence and follow the commercial loan regulations and loan participation regulations as they apply to these loans, no different than if we were originating the loan ourselves and retaining a 100% interest in said loan, in accordance with our own existing loan policy. Loan participations are an important tool for credit unions to manage the MBL concentration, liquidity, and overall risk. Participations also facilitate collaboration among credit unions, which is fundamental to the cooperative nature of credit unions. This proposal provides greater flexibility to credit unions utilizing this important risk management tool.

We agree with the proposal to eliminate the reference to 12.25% of assets and only referring to the MBL cap as "1.75 times the net worth ratio required to be well capitalized" as it is defined in the FCUA. This allows flexibility in the calculation should the net worth requirements to be well capitalized change. Many comments from the banking industry distort the impact that this will have. Analysis shows that for most credit unions, 7% of total assets exceeds 10% of risk assets (well capitalized in proposed risk-based capital rule) resulting in no increase in the cap. The overall impact for credit unions is estimated to be .1%, or an increase to 12.35% of assets, a negligible increase at best.

In the proposal it is stated that "NCUA will incorporate expectations regarding risk management practices, such as LTV ratios and portfolio concentration limits, into supervisory guidance issued with any final rule adopted by the board." It is important the supervisory guidance developed maintain the flexibility intended with the proposed rule. Often examiners equate supervisory guidance as equivalent to regulation, and require more or impose restrictions not included in the regulation, but referenced in the supervisory guidance as "best practice," "limits that should be considered," etc. Care needs to be taken that the benefits from the revised rule are not muted or reduced by the supervisory guidance. We encourage NCUA to put the supervisory guidance, once developed, out for public review and comment. This will allow all parties to feel comfortable that the prescriptive limitations of the current regulations are not being simply moved to supervisory guidance, and the intended beneficial impact of the new regulations is made moot by the guidance.

The proposal is recommending an effective date of 18 months after the proposal is finalized. We would like to see NCUA allow credit unions that are prepared to follow the new requirements earlier than 18 months after the final rule be allowed to do so at their discretion. We believe that this will allow those credit unions, Centra included, to begin benefitting from the intended regulatory relief as soon as they are positioned to do so.

NCUA is estimating a one-time $1.9 million cost to the agency to implement the proposed rule. We believe that it is important that NCUA cover this one-time expense by reallocating existing resources, and not as an add-on to NCUA's budget.

The banking industry has been very active in submitting form letters that include a variety of erroneous claims related to the ability of credit unions to be involved in commercial lending. They continually reference the information NCUA provided in the commentary on the proposed rule referring to losses incurred by the share insurance fund resulting from five credit unions involved with MBL during the economic downturn. During the same time frame, the FDIC suffered much more significant losses that had a greater impact on their deposit insurance fund. Credit union experience with MBL delinquency and charge-offs was no different than what banks experienced during the economic downturn. As the economy has recovered from the recession, the performance of credit unions' business lending, Centra included, has improved. The delinquency and charge-off rates of business loans continue to decrease and revert to pre-recession levels. Delinquency and net charge-off rates for Centra in 2014 dropped to 52 bps and 45 bps respectively, with YTD 7/31/15 delinquency and charge-off rates standing at 27 bps and 24 bps, respectively. Similar to what credit unions have experienced, bank business loan delinquency and charge-off rates have returned to pre-recession levels.

Additionally, banker comment letters reference that the NCUA has not demonstrated an economic need for this proposed regulation. This proposed regulation is about providing regulatory relief. Small businesses have reached out to credit unions as a source of credit when the banks either reduced or were unwilling to provide credit to these same businesses during the economic downturn. This proposal allows credit unions the necessary flexibility to work with these businesses to more effectively meet their needs in today's economic environment, removing antiquated regulations that are no longer necessary.

Banker comments also refer to taking "member" out of "member business loan" by removing the requirement for a personal guarantee. Credit unions will continue to make loans to members. The personal guarantee is not what defines a member. The proposal would facilitate the ability of credit unions to make quality loans without unnecessary stipulations that would not be required of the member at other financial institutions. Personal guarantees absolutely do not go away completely, and are already addressed in the Centra's commercial loan policy.

Additional comments from the banking industry include other erroneous claims. As stated above, the elimination of the 12.25% of assets referenced in the existing regulation simply aligns the proposed regulation with the FCUA, and, in reality, has very little or no impact on increasing the cap for the vast majority of credit unions. The FCUA only specifies that the MBL cap is "1.75 times the net worth requirement to be well capitalized." Credit unions are tax exempt based on their member-owned cooperative structure, not based on the services they offer. The proposal allows the credit union to address loan-to-value caps, loans to a single borrower, and personal guarantee in the commercial loan policy. This again allows the credit union to manage its MBL program in a way that provides prudent protection along with the flexibility to meet the needs of its members without being burdened by arbitrary limits not specifically required by the FCUA.

Thank you for the opportunity to comment on the proposed member business lending regulations. We are encouraged that the NCUA was willing to approach this revision in a way that provides regulatory relief to credit unions offering MBLs. We hope that through the issuance of supervisory guidance, NCUA does not undermine the regulatory relief intended in this proposed regulation. We continue to believe that the 1.75 times net worth required to be well capitalized MBL cap is an arbitrary and unnecessary statutory restriction on credit unions and would hope that NCUA would support legislation intended to rectify this.

We sincerely appreciate the desire of NCUA to provide regulatory relief and ask that this continue to be the focus of new and proposed regulatory changes. If you have any questions about our letter, please do not hesitate to give me a call at (812)280-2780.

Sincerely,

Christopher Bottorff
Interim President
Centra Credit Union